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NID SPECIAL ANALYSIS

MEXICO: De la Madrid Hopes for Upbeat Visit

President de la Madrid, now in the fourth year of his six-year term, will arrive in Washington next week with a greater sense of confidence in Mexico's near-term prospects than during his last meeting with President Reagan in January. Mexico City recently concluded an agreement with the International Monetary Fund and the ruling party achieved a virtual sweep of state elections in the opposition stronghold of Chihuahua last month. While in Washington, de la Madrid will seek to highlight positive aspects of bilateral relations while attempting to skirt over the topics of Central America and Mexico's longer-term problems. [redacted] 25X1

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Recent Developments

De la Madrid is likely to appear cautiously optimistic because the IMF accord affords his financially battered administration a respite. He almost certainly is pleased that the agreement provides lenient performance targets and additional compensation if international oil prices plunge or Mexico is unable to realize moderate growth. [redacted] 25X1

The Mexican leader also can take satisfaction from the elections in Chihuahua and several other states. In Chihuahua, his ruling party [redacted] 25X1

[redacted] accomplished its aim of trouncing the conservative National Action Party and other opponents. The PAN's peaceful protests have won the support of some business and Church leaders in the north, but these actions are unlikely to alter the outcome of the contests. [redacted] 25X1

De la Madrid's Agenda

Despite the IMF agreement, de la Madrid will come to Washington seeking additional financial help. He may ask for a US contribution to a $1.5 billion loan. Part of the loan could be used to tide Mexico City over until commercial bank creditors formally agree to provide new funds, which could take several months. He also is likely to request that US officials press the banks to speed a settlement. [redacted] 25X1

In making a case that Mexico is worthy of such support, de la Madrid will portray his administration as dealing responsibly with its financial difficulties. He will place heavy blame for Mexico's economic troubles on the recent plunge in international oil prices. At the same time, he will point to certain actions

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his administration has recently taken as evidence of his intention to reform the economy. Likely examples include the closure of a large debt-ridden, government-owned steel mill, the raising of fares for public transportation, and negotiating entry into GATT.

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On other issues, de la Madrid almost certainly will stress his personal commitment to a drug eradication program and efforts to combat narcotics trafficking. He may appeal for greater US resources to further these efforts. He also is likely to ask for greater cooperation to promote tourism and encourage foreign investment. He will applaud Washington's plans to lift the US embargo on Mexican tuna.

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Outlook

The IMF accord provides Mexico with only limited breathing room, and serious problems remain. GDP is projected to fall 4 or 5 percent this year and inflation is expected to reach 100 percent. De la Madrid is likely to resist pressure to adopt politically difficult economic reforms because he knows they are unpopular with many Mexicans and opposed by labor and other powerful interests within his ruling party.

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More generally, de la Madrid appears to have adopted a short-term perspective on Mexico's economic and political problems. He is unlikely to push for structural adjustment that would attack the root of the economic problems. Instead, he seems to be hoping to buy time for his last two years in office. Mexico's success in getting lenient IMF terms apparently has convinced the Mexican leader that this approach works and he is likely to continue to pursue it in Washington.

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Over the longer term, however, the course de la Madrid is following could worsen Mexico's problems. The country's demographic profile argues for reform sooner rather than later to minimize the eventual trauma associated with economic structural adjustment.

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